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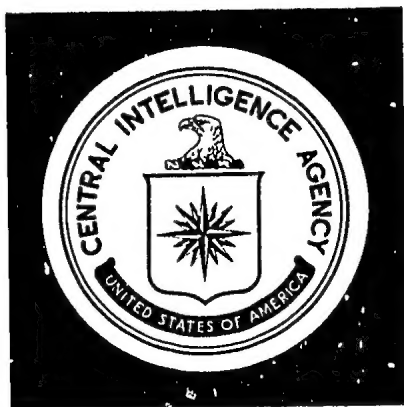
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation in South Vietnam

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July 1972

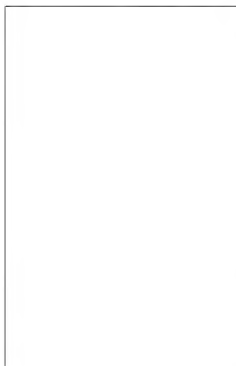
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**CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1972**

INTELLIGENCE MEMORANDUM

THE ECONOMIC SITUATION IN SOUTH VIETNAM

Summary

1. Economic activity reportedly has increased throughout much of the countryside during recent weeks, and some revival of consumer demand has been noted in Saigon.

2. Using his newly acquired emergency powers, President Thieu issued a decree permitting the government complete flexibility in setting exchange rates without legislative approval. He also changed mobilization procedures by tightening up on exemptions and deferments and reversing the order in which age groups are to be inducted. As a result, the threatened draft of 39- to 43-year-old males probably will not take place.

3. Of the 845,000 refugees generated since the offensive began, about three-fourths are still in government camps. Although some tax increases already have been levied to help pay for the relief effort, more revenue will be needed. In addition to providing temporary relief programs, the government is moving refugees from the northern provinces to permanent new homes in provinces nearer Saigon.

4. Agricultural production rose an impressive 10% in 1971 according to official estimates.

5. Charts on foreign exchange reserves, money supply and prices, gold and currency prices, and the government budget (Figures 1-4) follow the text.

Note: This memorandum was prepared by the Office of Economic Research.

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CONFIDENTIAL**Discussion****Current Developments**

6. All indications point to increased economic activity throughout much of the countryside during the past several weeks and at least a limited revival of consumer demand in Saigon where certain industries have been in a serious recession. Despite shelling from the enemy, Hue is reported to be calm and more active commercially than at the end of June. In Pleiku and Qui Nhon (Military Region 2), Agricultural Development Bank branches, which had closed in April, were scheduled to reopen this month. Rumors of a shift in Military Region 2 regional military headquarters from Nha Trang to Pleiku reportedly have stirred up hopes of an economic boom in the latter city. Farther south, Gia Dinh businessmen are chafing at curfew restrictions, which limit their money-making activities. Delta farmers apparently are marketing their produce more aggressively, although sporadic fighting in Dinh Tuong and other provinces continues to cause short-term transport problems.

7. In Saigon, retail prices dropped somewhat in late June, but rose during early July as consumer demand for fresh food items increased. The USAID index, however, was still only 3% above the pre-offensive level by 10 July (9% for the year). Demand for more durable goods probably will be slower to revive. The price index for imported commodities, which better reflects demand for durable goods, was still below the pre-offensive level at the end of June. Nevertheless, US Embassy officials report that textile sales increased in early July and that manufacturers were returning to more normal production schedules.

8. The black market price of dollars, which fell below the legal rate in June, moved up to 433 piasters per dollar by 10 July, or 8 piasters above the legal rate. The major factor behind the increase reportedly was concern that further devaluations would be forthcoming under President Thieu's recently acquired emergency powers. The rate for MPC (scrip), which had fluctuated from about 390 to 395 piasters per dollar since January, also increased during the early part of July, reaching 410 on the 10th. The gold leaf price continued its month-long climb in line with the price of gold in the international market.

Emergency Powers Decrees

9. Under the six-month emergency powers granted him by the National Assembly in late June, President Thieu enacted decrees on 8 July further simplifying the exchange rate system and clarifying mobilization

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procedures. The major purpose of the exchange rate measure was to tidy up the legal complexities surrounding exchange rates and to allow the government complete flexibility in making rate changes in the future. Legislation to this effect had been submitted to the National Assembly last fall but never passed. As a result of the decree the old official rate of 118 piasters per dollar set in June 1966 – and still valid for a few transactions – has been abolished. Also abolished was the system of "parallel market" rates that was established in October 1970 to avoid the legislative problems of changing the official rate. The government is now free to set exchange rates for all kinds of transactions without legislative approval.

10. The new rates put into effect on 10 July, however, represent very few changes, and these affect only students and government officials traveling abroad. As shown in Table 1, the new rate for student remittances and Vietnamese government transactions more than triples the cost of sending students and government officials (including legislators) abroad. This added cost may provoke a protest from those affected, but they are relatively few in number.

Table 1

Exchange Rates

	Piasters per US \$		
	<u>31 Dec 71</u>	<u>9 Jul 72^a</u>	<u>10 Jul 72</u>
Merchandise imports			
South Vietnamese government financed	400	425	425
US Commercial Import Program	275	290	290
Merchandise exports	410	500	500
Invisible transactions			
South Vietnamese government transactions and remittances to students abroad	118	118	425
All other ^b	410	425	425

a. During the first half of 1972, exchange rates were raised several times, the last devaluation occurring on 18 June.

b. Except for US and other governments' piaster purchases for which the rate remained at 118 piasters per dollar until 1 April 1972.

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11. Continuation of the favorable rate for exports is the most direct method the government has chosen to promote exports. The Vietnamese are trying to build up an export development center and increase commercial representation at Vietnamese embassies abroad, but these processes are slow. Stimulated by the more realistic exchange rate adopted in late 1971, exports already have increased this year, and the government is determined to provide additional incentives for investment in export-oriented activities.

12. The new mobilization decree considerably softens the government's stance on draft procedures put forth in May. At that time the government announced its intention, under the provisions of the 1968 mobilization law, to draft 39- to 43-year-old males and then the 17-year-olds. Induction of the former group almost certainly would have caused critical personnel shortages in some economic activities. The new decree, however, reverses the order in which these age groups will be inducted and probably puts the older age group entirely out of reach of the draft. Moreover, it is not clear at this point when or even whether 17-year-olds will be drafted, since the new law also tightens up on exemptions and deferments for 18- to 38-year-old males. Most student, religious, economic, and hardship exemptions and deferments have been eliminated, although many of those previously exempt or deferred will be mobilized in-place and thus be able to continue in their present occupations.

13. President Thieu's plans for further use of his emergency powers reportedly include tax increases that would primarily affect upper income groups. Higher taxes on some luxury-type commodities were levied in May under Thieu's existing authority, but he apparently preferred to wait for full emergency powers before taking further action. According to US officials, new measures probably will include higher gasoline and motor vehicle use taxes as well as revised schedules for income and property taxes, which were submitted to, but not passed by, the National Assembly. The government probably also will enact by decree the tariff reforms put into effect last November but never ratified by the legislature.

Refugees

14. Several thousand refugees have returned home as fighting has subsided, but the military situation still prevents the majority of them from going back to their villages. US officials estimate that as of 13 July 845,000 persons had become refugees since the start of the offensive at the end of March. Of these, 643,000 are currently in government refugee sites and an unknown number are living with relatives and friends (see Table 2). Although the number currently in camps represents a decline of about 50,000 from the peak of late June, the government still faces an enormous and persistent problem.

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Table 2
Refugee Status as of 13 July

	Leaving Homes in Province ^a		Located in Government Refugee Centers (Thousand)
	Thousand	Percent of Province Population	
Military Region 1	484.9	15	365.2
Quang Tri	250.0	78	--
Thua Thien	110.0	15	46.4
Quang Nam	34.0	3	237.3
Quang Tin	30.1	7	20.1
Quang Ngai	60.8	9	61.4
Military Region 2	173.2	5	160.0
Kontum	35.0	29	9.6
Pleiku	45.0	20	35.6
Binh Dinh	86.0	9	59.3
Phu Bon	3.7	6	3.0
Phu Yen	9.5	3	10.8
Darlac	--	--	9.0
Khanh Hoa	--	--	29.5
Ninh Thuan	--	--	1.6
Tuyen Duc	--	--	0.9
Lam Dong	--	--	0.7
Military Region 3	112.1	2	79.8
Binh Long	45.0	57	--
Phuoc Long	7.9	16	4.4
Binh Duong	4.2	2	31.4
Tay Ninh	10.0	3	2.0
Hau Nghia	18.0	8	8.2
Bien Hoa	--	--	18.0
Phuoc Tuy	27.9	13	11.0
Long Khanh	--	--	4.8
Military Region 4	75.1	1	37.6
Chau Doc	6.5	1	--
Kien Phong	9.9	2	6.3
Kien Tuong	9.5	19	3.7
Kien Giang	8.9	2	1.8
Vinh Binh	2.0	Negl.	--
Chuong Thien	27.7	11	20.0
Ba Xuyen	2.5	Negl.	2.3
An Xuyen	5.6	2	2.5
Dinh Tuong	2.5	Negl.	1.0
Total	845.3	5	642.6

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15. Government relief efforts continue to be adequate in most areas, but the costs will put considerable strain on the budget. According to official estimates, temporary relief (mainly food and miscellaneous services for 90 days) for 850,000 refugees and resettlement or return-to-village benefits for three-fourths of that number would take up about 4% of the 1972 budget, or about 14 billion piasters (\$32.9 million converted at 425 piasters per dollar). From 31 March to 15 June the government spent an amount equivalent to one-third of the total 1971 refugee budget, and this amount did not include the cost of shelter, services, and food from existing stocks. Some financial relief will come from the tax increases levied in May, and revenues from some of the new tax measures being planned (see paragraph 13) also will be earmarked for refugee programs.

16. The government has begun to move some refugee families from Military Region 1 to permanent new homes in Military Region 3. Known as Land Development and Hamlet Building, this program got under way on a small scale in January but has taken on added urgency since the offensive began. Already about 14,000 persons have been moved - most since the offensive began - from Quang Tri, Quang Tin, and Quang Ngai Provinces down to Long Khanh and Phuoc Tuy in Military Region 3, where the government has built new villages on unused land. Participation is voluntary, and most of those involved have been in refugee camps for a long time with no hope of ever returning to their own villages. Some 3,000 of them are former refugees who had found work at the US base at Chu Lai (Quang Tin Province) but were left without jobs when the base closed. The resettlement program has not in all cases enabled the refugees to escape the war. The enemy has made a point of attacking the new villages, and many of the settlers have been forced to flee once again to nearby towns. People still are moving down from Military Region 1, but the resettlement program clearly cannot fulfill its goal of making the refugees self-supporting until security can be assured.

1971 Agricultural Production

17. For the third consecutive year, South Vietnamese agricultural production registered an impressive gain. According to the official production index,⁽¹⁾ output rose 10% in 1971, compared with increases of 12% and 9% in 1969 and 1970, respectively. In contrast to previous years, however, increased output was reported for almost all crops, and the total cultivated area increased considerably - 5%. Although greater double-cropping of rice accounted for a large part of the increase in cultivated area, the area planted to other crops rose for the first time in

1. The index excludes forestry and fishing.

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many years. Security conditions apparently were good enough in 1971 to permit the recultivation of some abandoned land.

18. According to statistics available from the Ministry of Agriculture (see Table 3), there were substantial increases in the output of vegetables (12%), peanuts (16%), and rubber (15%). The latter increase was entirely due to higher yields because the areas of trees tapped declined slightly. Production of subsistence crops such as sweet potatoes and manioc, which had declined steadily for several years, showed a surprising upturn. Improved security probably was the major factor behind the increases for these crops, which are grown mainly in the lowlands of Military Regions 1 and 2. Output of sorghum -- a relatively new crop to South Vietnam -- rose dramatically last year as the area planted increased from 1,000 to 14,000 hectares. Sorghum production for animal feed is a high-priority program being sponsored by US agricultural advisers. There seems little doubt that livestock production also rose substantially, but it is impossible to say how much. The official index reflects only changes in the livestock population, not the output of animal products.

19. Despite losses from the enemy offensive estimated at 100,000 metric tons, the 1971 rice crop⁽²⁾ still was up 9% over the previous year. As was the case in 1969 and 1970, most of the increase was the result of greater use of high-yielding varieties of seed. The new varieties were grown on one-fourth of the total area cultivated to rice (including that double cropped) and accounted for more than 40% of production.

20. Forestry and fishing also made rapid gains in output in 1971. The Directorate of Fisheries reported an increase of 14% in the marine and fresh water fish catch for another record high level. Production of logs reportedly increased 62%. Some, but not all, of this increase probably reflects underrecording in the past.

2. The crop year ended 31 May 1972.

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Table 3

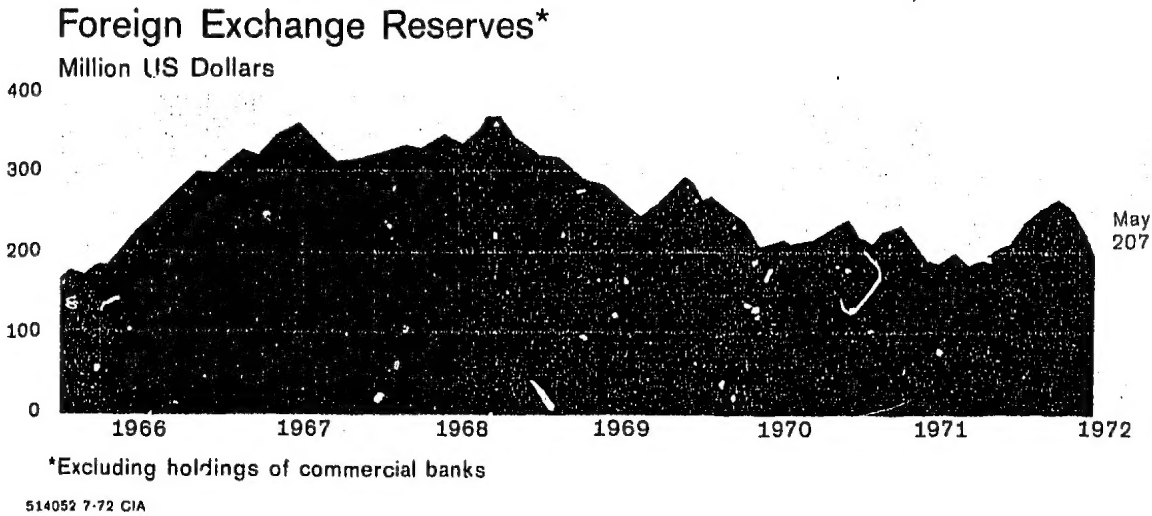
Output of Selected Agricultural Products

	Thousand Metric Tons ^a			
	<u>1964</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Rice (paddy)	5,185	5,115	5,716	6,224
Sweet potatoes	301	226	220	230
Manioc	289	234	216	270
Corn	46	31	31	34
Peanuts	36	34	32	37
Fruits	526	440	473	498
Vegetables	108	235	218	244
Coconuts (million nuts)	141	98	118	125
Sugar cane	1,055	321	336	340
Tobacco	7	8	8	9
Tea	5	5	5	6
Coffee	3	4	4	4
Rubber	74	28	33	38

a. Except as noted.

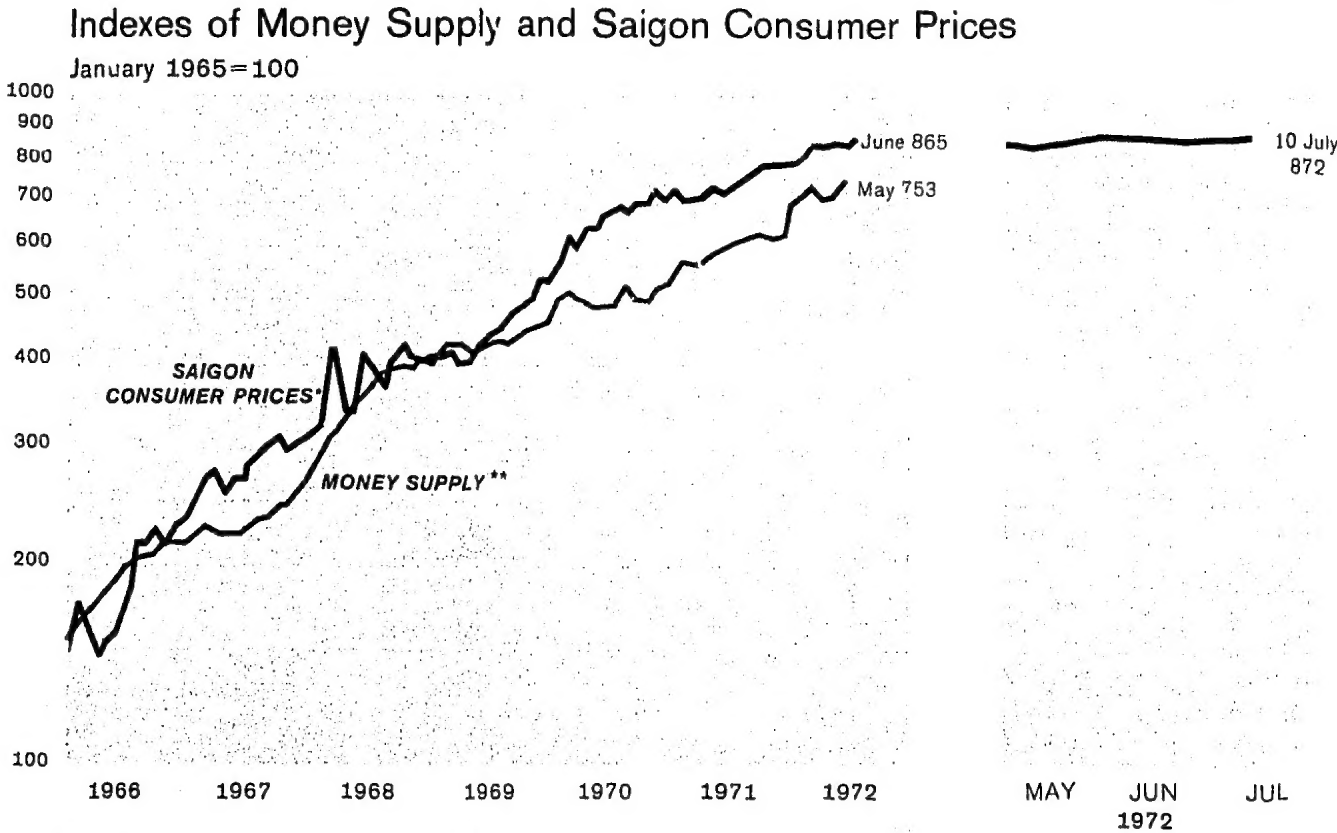
SOUTH VIETNAM

Figure 1



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Figure 2



*USAID monthly average retail price index for Saigon

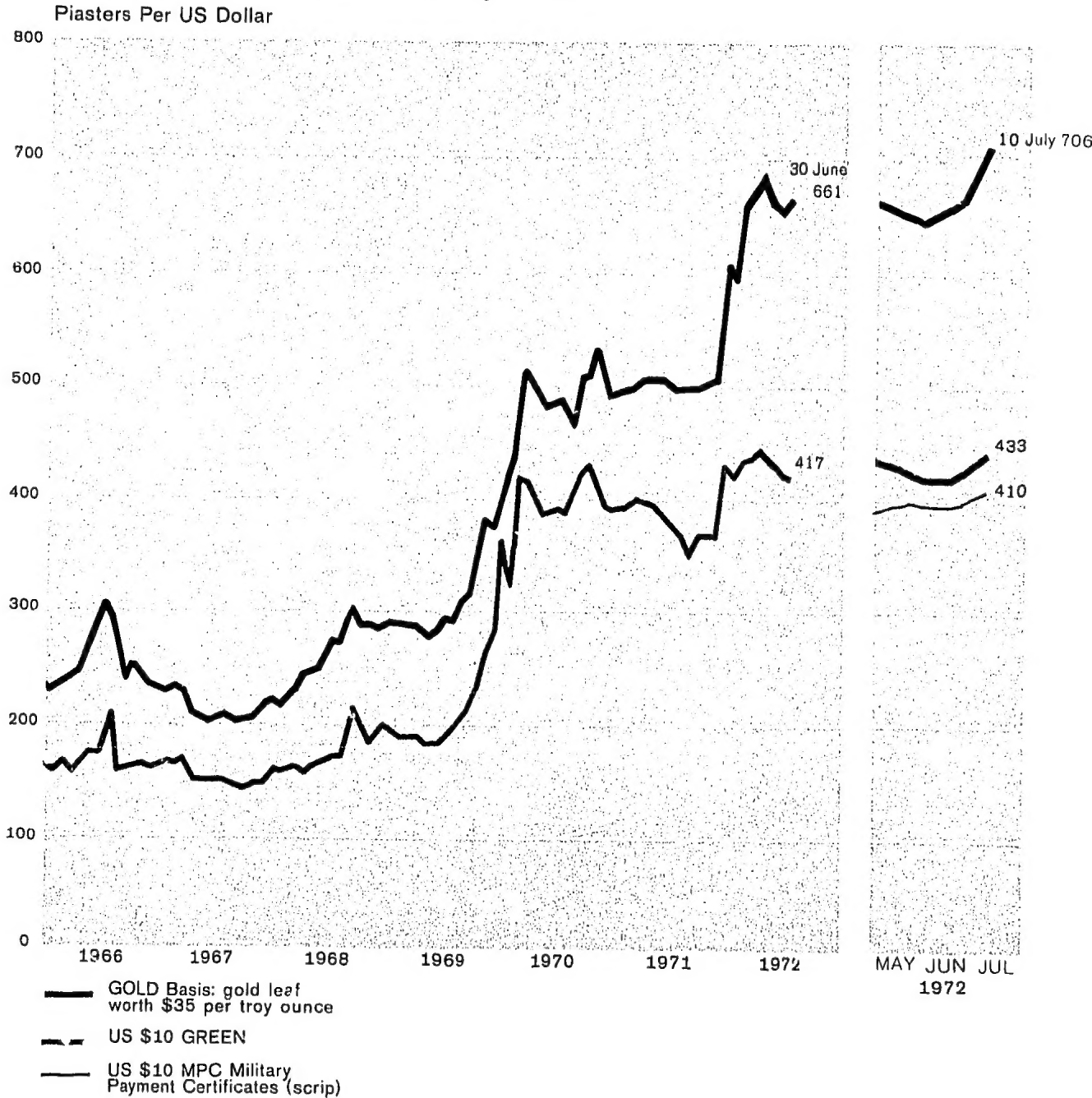
**Data are for end of month

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SAIGON

Free Market Gold and Currency Prices

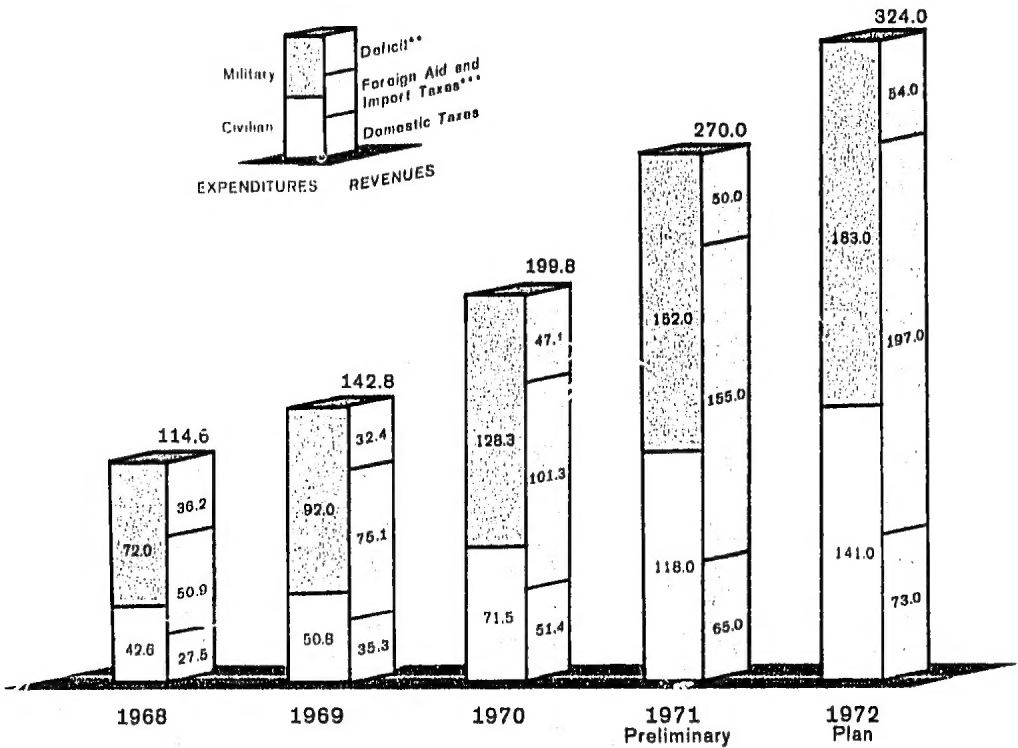
Figure 3



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SOUTH VIETNAM
Government Budget*
Billion Piasters

Figure 4



*Data include extrabudgetary revenues and expenditures.
**Residual. Financed primarily by borrowing from the National Bank.
***Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions. A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.